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Farmers income tax  
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Canada. National Revenue. Dept. of.  
Taxation Division

# FARMERS INCOME TAX GUIDE

*and*

## FARM ACCOUNT BOOK

Issued by  
**TAXATION DIVISION  
DEPARTMENT OF NATIONAL REVENUE**

**HON. JAMES J. McCANN, M.D.,**  
Minister of National Revenue

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This booklet, which is supplied by the Taxation Division of the Department of National Revenue, is intended to help you fill out your income tax return correctly, so that, while paying what you should, you will get the benefit of all allowances that the law permits. It is hoped that you will find the book useful, not only in the completion of your return but also as an aid in keeping proper records.

The information contained in this book is presented in the form of questions and answers which have been divided into three sections. The first explains the necessity for keeping records and filing income tax returns, the second deals with specific items on the return and the third contains answers to questions of a general nature which will be of interest to you even though they may not have a bearing on your current year's income tax return.

It should be understood that all information is given in broad terms of general policy. Individual cases are subject to the specific terms of the Income Tax Act.

In the account book section you will find that each account is numbered to correspond with the items on the income tax return. If you enter all receipts and expenses at the time of the transaction or shortly thereafter the task of keeping records will be made much easier. If you find that there are not enough pages to record your transactions for the year in any particular item, rule up some plain paper the same as the sheet that has been filled up and put it in the book.

Before making any entries it is recommended that you read this booklet thoroughly and if you have any further questions or special problems about income tax, write to the District Income Tax Office nearest to where you live. They are located at Toronto, Hamilton, London, Kitchener, Ottawa, Kingston, Belleville, Fort William, Montreal, Quebec, Saint John, Halifax, Charlottetown, Vancouver and Dawson.







## AN INTRODUCTION TO INCOME TAX

Question.—What about income tax anyway? What is its justification?

Answer.—All Canadians with incomes above certain minimum levels pay income tax for the same reason that those who own farms pay a land tax, to cover the cost of the things they get, in common with other citizens, through the agency of a civilized form of government.

Q.—What are the things Canadians get through their Government? What are we paying for?

A.—We are paying for the after-cost of our part in the winning of two world wars, which, had we lost, would have plunged us into the terrors, the deprivations, the serfdom and the hopelessness which afflict a majority of the people in the world today. That after-cost is in the form of pensions and re-establishment credits to war veterans and in interest on the bonds we bought to help finance the two wars.

We are paying for social services, old age pensions and family allowances in particular but also health services and many other benefits.

Then there are the various administrative Departments, each bringing particular benefits to you and the people as a whole:—

The Department of Agriculture, which has sponsored and administered many laws directly helpful to the farming community and which is always on the watch for the farmers' best interests.

The Department of Finance, whose duties consist of the supervision, control and direction of the financial affairs and public accounts of the Dominion.

The Department of Transport, which works for an efficient railway, lake and ocean transport system for farm products going out and merchandise coming in.

The Department of Trade and Commerce, which ever seeks to extend the market for Canadian products.

The Department of Public Works, which ensures that Canada's docks, canals, harbours, public buildings, are properly built and maintained economically.

These are by no means all, but surely enough to show that there is a great amount of work being done in the government services by which the whole nation benefits.

Q.—Is it being done efficiently? Am I getting value for my money?

A.—The government organization is one of human beings and therefore not perfect; but it is the government's aim to operate efficiently and at the lowest possible cost. Headway is being made in these respects right along.

Q.—If I disagree with government policies, am I entitled to refuse to pay income tax?

A.—No. The Government in power was put there by the majority of voters to carry out policies in their interests. Its fate lies in the hands of the people and as long as it has their confidence all must obey the laws enacted for the general welfare. The same necessity would still exist to pay the after-cost of wars, to provide social services and to maintain administrative Departments whatever government were in power. If the burden of income tax were lightened, the load would have to be carried somewhere else, perhaps in higher customs or excise taxes or a larger sales tax.

Q.—Is income tax then an alternative to customs and excise duties and sales taxes?

A.—No. Canada will probably have to have both for a long time to come. The government at Ottawa simply has to have a certain amount—a large sum—to discharge its responsibilities to the nation. Income tax is generally regarded as the fairest of all taxes because it adjusts the tax according to ability to pay. The man whose income is below \$750 a year or \$1,500 if married, pays nothing, while the rich man must pay three-quarters or more of his income in taxes. There



is a graduated scale by which Parliament has attempted to be fair to everyone.

Q.—Does not the heavier tax rate as income is larger tend to discourage enterprise? Why should I bother to work extra hard to raise more pigs if the government is going to tax me more for so doing?

A.—Unless you are a rich man the government's share should not discourage you. It is not large enough for that. You will still retain a great deal of the net gain on your deal. For example, if you had \$2,500 income from your 1947 crop and are a married man with two children under 16 you will get at least \$120 by way of children's allowance for 1947 and you will pay tax of \$161.25. If you decided to raise some hogs as an extra and made \$600 more on that enterprise your extra tax would be \$141.00. The remainder of \$459.00 should be worth the effort. Incidentally, all business men pay at the same rates and you rate as a business man.

Q.—What is farm income? On what theory is it worked out?

A.—There is a great mass of law about income and an answer which will meet all varieties of cases is not a simple matter. However, in general, it is the difference between the annual receipts from all the work done on the farm and the expenses of doing that work. Personal and living expenses of the farmer and his family cannot be included as expenses.

Q.—Why not?

A.—Because according to the law, no one is allowed to deduct his personal and living expenses and those of his family. The same rule applies for all. As a matter of fact, the exemption of \$1,500 for a man and wife plus the exemption for their dependents is supposed to cover necessary personal and living expenses.

Q.—The Income Tax Form looks pretty long to me. Why do you have to have 6 pages?

A.—It is not really as bad as it looks. And it is all necessary either to cover the things the law provides for or to assist in getting the facts. After all, the Department of National Revenue has a duty to be sure that it gets the full facts. The form calls for no more than business men have been accustomed to provide. It is more or less the same in all English speaking countries of the world where income tax applies.

Q.—Tell me briefly what the form does contain?

A.—Page 1 calls for (a) some general particulars of the taxpayer, (b) particulars of exemptions claimed and then (c) the computation of the tax as described above.

Page 2 is for recording details of total receipts.

Page 3 is for recording details of total expenses.

Page 4 has three statements on it—

1. A list of hired help with their wages paid.
2. A computation of depreciation.
3. An inventory of livestock, etc.

Page 5 is a net worth statement.

Page 6 calls for particulars of claims for married status, for dependents and for sundry information applicable to special cases. It also lists the main part of the tax rates applicable.

Almost every farmer will find that some of the form does not apply to him. But when the Income Tax Division gets out a form for 500,000 taxpayers it has to try to cover every kind of case. That is one reason the form looks long. If we cut it down, however, we are liable to miss out something which may be important either to the government on the one side or a taxpayer on the other. These things are apt to work in either direction and we have to try to see and protect both sides.

Q.—In filling out this form are there references between the form and the guide?

A.—Yes. All through the form you will find notes such as "(See Guide Page 31)." We have tried to explain fairly what is required in each case.

Q.—Where will I find these notes for my guidance?

A.—Pages 8 to 16 hereof contain these notes. You should have the guide at your elbow all the time you are preparing your return.

Q.—What use is the second part of this Guide?

A.—It is a kind of account book. It is intended to help you to keep the figures you will need to fill in your return.

Q.—Are you not expecting a lot from a farmer, who often comes in from the fields just ready to drop, that he should turn bookkeeper?

A.—Perhaps. But it is not as difficult as it may seem, and it has great advantages to you, not only because of the tax laws but also because you will find that the records will help you to show whether



you are actually making your farm pay and may serve as a guide to more successful operations.

We have endeavoured to make it as simple as possible. All you have to do is to make it a regular habit to record your transactions as you go along. It will only take a few minutes to write down the day's transactions. Some days will have no transactions at all, others, only one or two. If you write them down after supper every day without fail or when you get in from town it will be no chore and it will save all kinds of trouble and money later.

Keeping books may be a chore but it will pay off for you in profit as surely as any other chore you do.

Q.—What assurance have I that I will get fair play?

A.—You should bear in mind that the Income Tax officials are not trying to exact the maximum amount they can get out of you but only what a fair-minded application of a fair and universal law calls for. You have to look at it that everyone in

Canada is subject to this law, that Parliament has tried to be sure it is a fair law and that the Government employs the best men it can get to try to see not only that everyone pays his just share but also that no one pays more than the law requires. Tell them the facts honestly and completely and you will find them fair and decent as a rule. Fairness and decency create fairness and decency.

However, if you think they are not being fair, you have a right of appeal to the Minister of National Revenue and, if he upholds them rather than you and you do not get an explanation which satisfies you, you can go further and appeal for 1946 and subsequent taxation years to a special Appeal Board of independent and qualified men, who will be sworn to do even-handed justice. Your District Income Tax Office will tell you how to go about this. Usually you will find, if you are fair yourself, that no appeal will be necessary. However, legal machinery is available for your protection and you have a right to use it if you so desire.

## YOUR INCOME TAX RETURN

Questions and answers pertaining to the Income Tax form.

(The numbers in the left-hand margin refer to the Item numbers on the form.)

Q.—Please explain the three year average and how does it work?

A.—The three year average is a moving average commencing with the year 1946. The first period ends in 1948 and includes the income of the years 1946-1947-1948. In 1948 the farmer, provided he has filed returns by the due date for each of the two prior years, may apply for permission to average his income, on a special form which will be provided at that time, and he will be expected to continue on that basis in the future. In 1949 the income of 1947-1948-1949 will be averaged and the necessary adjustments made and this readjustment of income will be continued.

The diagram below gives you an idea how it will work.

Year	Income	Average	Average	Average	Average
1946 ..	2,500	2,166	}	}	}
1947 ..	1,000	2,166			
1948 ..	3,000	2,166			
1949 ..	500		1,500	}	}
1950 ..	4,500				
1951 ..	3,300				
				2,666	
					2,766

The final tax payable will be on an income of: 1946—\$2,166; 1947—\$1,500; 1948—\$2,666; 1949—\$2,766.

# 3. Q.—Why is it necessary for me to put in my previous address?

A.—The Income Tax office has so many similar names on file that it is necessary to use the address for identification. If you use a new address and do not let us know what your former address was, we naturally think you are a new taxpayer.

# 5. Q.—What is meant by "Income of Spouse"?

A.—If you are a married man it refers to the income of your wife and if you are a married woman it refers to the income of your husband.

# 6. Q.—What do you mean by partner?

A.—If you are carrying on business with some one else sharing in the profits then that person is your partner and it will be necessary for you to give his name and address. For further details on partnerships refer to section under partnerships on page 17.

# 8. Q.—How do I work out my exemption?

A.—This can be shown by examples:

*Example (1)* Married man two children ages 4-6; wife with no income.

8A single \$750.00—married (or equivalent)	\$1,500.00	\$ 1,500.00
B Reduction of married exemption:		
(i) Income of spouse if not over \$750.00....	Nil	
(ii) Deduct .....	\$250	
		Nil

Net Marital Exemption.....\$ 1,500.00

9. DEPENDENTS—

D Children 2 at \$100. each.....	\$ 200.00
E Children None at \$300. each....	Nil
F Other dependents.....	Nil

Total Exemptions .....\$ 1,700.00

*Example (2)* Married man 3 children ages 12-14-17; wife's income \$600.00

8A single \$750.00—married (or equivalent)	\$1,500.00	\$ 1,500.00
B Reduction of married exemption:		
(i) Income of spouse if not over \$750.....	\$600.00	
(ii) Deduct .....	250.00	
		\$ 350.00

C Net Marital Exemption.....\$ 1,150.00

9 D Children 2 at \$100. each..	200.00
E Children 1 at 300. each..	300.00
F Other dependents .....	Nil

Total Exemptions .....\$ 1,650.00



# 9D. Q.—Why may I only claim \$100 for some of my children and \$300 for others?

A.—You may claim \$100 for children who are qualified for Family Allowance. \$300 is allowable for those children not qualified.

# 9E. Q.—May I claim any of my children who are over 18 as a dependent?

A.—Yes, under certain circumstances. If your sons or daughters (or like inlaws) are attending school and are 21 years old or under at the end of the year, you may claim them as dependents. If for reasons of mental or physical disability they are incapable of earning a livelihood you may claim them as dependents regardless of their age.

You may claim grand-children as dependents if the parents are dead or incapable of supporting their children. If the parents are living, a full explanation must be supplied, including the name and address of the parents. If you have any unusual tax problems with regard to your dependents, write to your District Income Tax Office.

# 9F. Q.—What is meant by other dependents?

A.—This is explained in section 51 Page 6 of the Income Tax form. It is only necessary to add here that you are entitled to claim for brothers, sisters (and like inlaws) parents, grandparents (and like inlaws) if they are dependent upon you for support. You may claim a sister or daughter or granddaughter who is training as a nurse and who has not reached her 22nd birthday within the taxation year.

#10D. Q.—What may be claimed under charitable donations?

A.—Any gift made to an approved Canadian charitable institution (Church, Red Cross or similar organizations) may be claimed. It is necessary that receipts be attached showing the amount claimed. Donations may only be claimed up to 10% of your net income. (Item 10C.)

#10D. Q.—What is meant by Gifts to the Crown?

A.—Sometimes, it is to the taxpayer's advantage to have his wife or dependent make a gift in money to the Crown and thus lower the income of that person so that full claim for exemption may be made by the taxpayer. However, it is not always to the advantage of the taxpayer to have his wife or a dependent

make a gift to the Crown, therefore calculations should be made to find out what would be to the taxpayer's best advantage. A gift must be forwarded to the Receiver General of Canada on or before 30th April following the taxation year.

#10D. Q.—When may I claim medical expenses and how much do I have to have before a claim can be made?

A.—Medical expenses which have been paid in the taxation year may be claimed for any 12-month period ending within the taxation year, but they must not overlap. If for example medical expenses are claimed in 1946 for the period December, 1945, to November, 1946, they cannot be claimed in 1947 from June, 1946, to May, 1947. All medical expenses paid to a medical doctor, dentist, nurse or hospital may be claimed, also the amount paid to a full time attendant who looked after you, your wife or a dependent if totally blind at any time in the taxation period or if confined to bed through sickness or injury during the full taxation period. You may also claim the amount expended on an artificial limb, a brace for back or leg or a hearing aid used by yourself, your wife or dependent.

You can claim an amount up to \$600 if you are single and \$900 if you have married status. In addition to this you may claim \$150 for each dependent with a maximum claim for dependents of \$600.

To find out whether you may claim medical expenses, first total the receipts you have (you may not claim anything unless you submit receipts) then take 4 per cent of your Net Income (10C). If your medical expenses are greater you may claim the difference between them and 4 per cent of your income—if they are less you may not claim anything. Do not throw the receipts away if you find you can not use them now, some of them might be usable for a twelve-month period ending in the next calendar year.

Example:

Net Income Item 10C ..	\$2,000.00
Medical expenses paid ..	300.00
4 per cent of income ....	80.00
	<hr/>
Deduction allowable ....	220.00

## #10H. Q.—How do I calculate my tax?

A.—When you have arrived at your net taxable income—Item 10G—turn to page 6 item 55 on the Income Tax return.

Let us use two examples.

*Example one.* Item 10G—\$460.

Follow the second row of figures down until you come to \$400.

The tax on \$400 is \$72.25 (first column) and the tax on the additional \$60 is calculated at 21½ per cent (third column)=.....\$12.90

Your tax is therefore:	Tax
Income of ..... \$400	= ... \$72.25
Additional	

Income .....	\$ 60 @ 21½%	= ...	\$12.90
--------------	--------------	-------	---------

Total Taxable

Income .....	\$460	= ...	\$85.15
--------------	-------	-------	---------

*Example two*—Item 10G = \$2,660.00.

Follow the second column down until you come to \$2,500. The tax on this amount is \$566.25 (column one) and the tax on the additional \$160 is calculated at 25½ per cent (column three)

Income of .....	\$2,500	= \$	566.25
Additional			

Income .....	\$ 160 @ 25½%	= \$	40.80
--------------	---------------	------	-------

Total Taxable

Income .....	\$2,660	Tax = \$	607.05
--------------	---------	----------	--------

You will see from the above that the calculation of your tax is very simple. It is just a matter of following the second column down until you come to where your income falls between two figures on the chart (ex. 1, it came between \$400 and \$500—ex. 2, it came between \$2,500 and \$3,500). You use the lesser of these two figures and make your calculations from the figures shown on this line.

If your net taxable income is in excess of \$25,000 the table below may be used.

\$10,226.25 on income of \$25,000 and 55 per cent on the amount over \$25,000 but not over \$30,000.

\$12,976.25 on income of \$30,000 and 57½ per cent on the amount over \$30,000 but not over \$50,000.

\$24,476.25 on income of \$50,000 and 62½

per cent on the amount over \$50,000 but not over \$70,000.

\$36,976.25 on income of \$70,000 and 65 per cent on the amount over \$70,000 but not over \$75,000.

\$40,226.25 on income of \$75,000 and 67½ per cent on the amount over \$75,000 but not over \$100,000.

\$57,101.25 on income of \$100,000 and 72½ per cent on the amount over \$100,000 but not over \$150,000.

\$93,351.25 on income of \$150,000 and 77½ per cent on the amount over \$150,000 but not over \$250,000.

\$170,851.25 on income of \$250,000 and 82½ per cent on the amount over \$250,000.

## #10J. Q.—What is surtax and do I have to pay it?

A.—Surtax is a tax on income received from investments. You only pay surtax if this investment income is in excess of \$1,800. Calculate your net investment income by deducting Item 44E from Item 24K. This gives your net investment income from which you may deduct the net amount of Item 10D—namely, Charitable Donations, Gifts to the Crown and Medical Expenses less 4 per cent of net income. This figure is your investment income for tax purposes. You pay surtax only if this amount exceeds \$1,800 and then only on the amount by which it exceeds \$1,800.

Example (1):

Item 24K .....	\$600.00
----------------	----------

Item 44E .....	\$ 56.00	\$544.00
----------------	----------	----------

No surtax because the investment income is less than \$1,800.

Example (2):

Item 24K .....	\$2,400.00
----------------	------------

Item 44E .....	\$ 240.00	\$2,160.00
----------------	-----------	------------

Deduct 10D .....		\$ 60.00
------------------	--	----------

This amount exceeds

\$1,800 by \$300.....	\$2,100.00
-----------------------	------------

Surtax is 4% of \$300=	\$ 12.00
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## #10L. Q.—How do I deduct the income tax I pay to a foreign country and how much may I deduct?

A.—You may deduct an amount equal to the Canadian Tax on your foreign income or the amount paid whichever is the lesser. It will be necessary to find out how much this Canadian Tax is.



First you determine what percentage of tax you are paying in Canada. You do this by dividing your Canadian tax by your Total Income and multiplying by 100.

$$\frac{\text{Canadian Tax (Item 10K)}}{\text{Total Income (Item 10G)}} \times 100.$$

Multiply the figure you obtain from the above calculation by the Foreign Income and this will give you the Canadian tax on your foreign income. If you have paid more than this amount you can only claim as a deduction the Canadian tax on your foreign income but if you have paid less you can claim the full amount paid.

#100. Q.—Do I have to make instalment payments?

A.—You are required to estimate your Income in December and calculate the tax on this estimated income. You then should complete Form T-7B Farmers which can be obtained at the post office and pay  $\frac{2}{3}$  of the tax on or before 31 December in the taxation year. If this is not done 4 per cent interest will be charged for the period from 31 December until this  $\frac{2}{3}$  portion of the tax is paid.

#10Q. Q.—When is penalty charged and why is it charged?

A.—A penalty of 5 per cent of the balance of tax unpaid at date of filing (minimum penalty \$5) is charged if the Income Tax return is not filed on or before 30 April following the taxation year. It is absolutely necessary that this penalty be charged otherwise income tax returns would be filed whenever the taxpayers felt like it. This would work to the disadvantage of the taxpayer because our efforts to keep the returns assessed up to date would be further delayed. It is felt by the Taxation Division that four months is a long enough period to prepare the returns and that there is no reasonable excuse for them not being in by that time.

#12. Q.—What is meant by Produce turned over on Rent or Agreement?

A.—If you give produce in place of money for Rent of land, you should show as income the

amount which you turned over at the then market value and it will also be necessary that you show the same amount as an expense under Item 29. It is very true that these two items cancel themselves but they are transactions which take place in your business and therefore must be included.

If you pay any principal on a sales agreement or mortgage by means of grain or other produce it must be shown on the income side but cannot be claimed as an expense under Item 29.

#15. Q.—Do I have to report everything I sell?

A.—You are required to report the income from all the produce which you sell. You do not need to report the money received from the sale of any machinery or buildings.

#18. Q.—What patronage dividends are taxable?

A.—All patronage dividends or payments received are taxable with the exception of those in respect of goods purchased which formed a part of your cost of living and did not form a part of the cost of products produced by you for sale.

Where the patronage payment is with respect to both classes of purchases, i.e., on account of goods which formed a part of your cost of living and those which did not, and the PD.5 slip forwarded to you by the co-operative or other concern from whom you purchased the goods does not show the amount applicable to each class of purchase, the whole of the payment is taxable unless you can demonstrate that a portion of such payment is applicable to "cost of living goods".

Payment is considered to have been received if the patronage dividend has been paid in any of the following ways although not limited to these methods only.

1. Cash or cheque.
2. Produce.
3. Certificates of indebtedness.
4. Stock or shares.

5. Applied in satisfaction of an agreement to make a loan or purchase shares.
6. Applied in payment of a debt.

#20. Q.—I grow a lot of my own food on the farm. What do I do about that in computing my income?

A.—You should estimate its value and add it on to your other income, otherwise, you will have not only the regular exemption which everybody gets, but an extra item which the rest of the people do not get.

You will include all produce such as meat, milk, honey, wood, eggs, poultry and fruit and vegetables which are produced on the farm and which in the ordinary course of events could have been sold. Place a fair market value on these items and show this value as income. You will not need to include the vegetables from your family garden or unsaleable produce.

#24. Q.—What constitutes my investment income?

A.—Your investment income is the return from the capital which you have built up over a number of years or which you have inherited. This capital has been entrusted to other people or the Government. It would be in the form of rentals (cash or crop payments), interest, dividends, income from estates or trusts, annuities, royalties, etc.

You will show here the total amount which is paid to you before any expenses have been deducted.

If you find that the expenses which apply against your investment income (Item 44E) are greater than the total of your investment income (Item 24K) you cannot deduct the difference from your farm income. Being a farmer your chief income is from your farm and this income cannot be reduced by losses on your investment income. This is in accordance with the law and applies to everyone.

#24H. Q.—Are annuities taxable in full?

A.—No. Annuities pay back to you the money you paid in plus interest on the invested capital. You are only required to pay tax on the interest portion of the annuity. The slip you received at the end of the first year from the company or Government issuing the annuity will show how much is exempt and how much is taxable.

#28. Q.—What is meant by custom work?

A.—Custom work is work which you have done for you by some one who is not regularly employed by you, other than the men who come in from time to time to do repair work or capital improvements.

It would cover contract work like threshing, combining, plowing or trucking.

It will be necessary for you to show the name and address of the person who did the work for you.

#33. Q.—How much should I deduct for personal use of my automobile?

A.—You should deduct a minimum of  $\frac{1}{3}$  of the amount which you have spent on your car for gas, oil and grease. Everyone does pleasure driving to some extent or uses the car for personal matters like paying a visit, or going to town for groceries or to see a doctor and one third of the cost of the gas, oil and grease is a reasonable minimum, especially when nothing is required to be deducted for repairs and other upkeep.

#34. Q.—What can I claim as expenses for Repairs?

A.—Any expense for repairs to keep a machine in working order or a building in the same condition it was when purchased can be claimed as an expense. However expenditures made on alterations either to a machine or a building that would materially improve on the original or purchased condition of the machine or building would be considered an addition to capital and could not be claimed. Depreciation at proper rates could be claimed on the addition to capital.

It is to be noted that repairs of any kind made to the family dwelling cannot be claimed as they are a part of your personal or living expenses. This same rule applies to people who live in cities and towns.

#39. Q.—What do I include as small tools?

A.—All small tools such as forks, spades, picks, shovels, etc., costing less than \$25 are to be treated as expense items and should not be included in your depreciation schedule, even though their value, in the aggregate, is in excess of \$25.



#44. Q.—What expenses and deductions are allowable in respect of investment income?

A.—In a general way, all amounts necessarily expended in the earning of your investment income can be claimed by you as a deduction from that income.

More particularly, charges such as taxes, repairs, insurance and depreciation on buildings or properties rented to others would be allowed against the rental income received from these properties. In the same way, interest paid on monies borrowed to purchase stocks or bonds will be allowed against the income from these and an allowance for depletion can be claimed by you against the income from your mining and oil stocks. This last matter is rather complex and if you have any income from mining and oil stocks please write the nearest District Income Tax Office and they will give you full particulars of what you can claim.

#47. Q.—How do I calculate depreciation, and what are the rates for different items on the farm?

A.—Depreciation is the expense allowed for wear and tear on buildings, machinery, etc. You may claim as an expense depreciation on the original cost to you of these assets. Depreciation of an asset starts with the year of purchase and continues each year at the same rate until the total cost has been included in expenses.

If an article does not last for the full number of years normally expected, depreciation cannot be accelerated in the final year. Example: a frame building costing \$1,000 is depreciated for ten years and in the eleventh year it is burned. Only the regular 5 per cent could be claimed in the year of loss. The balance would be a capital loss and not chargeable against income.

If you build a building or a machine yourself, you can only charge the actual cost and cannot add anything for your own personal labour.

Any item purchased during the year at a cost of \$25 or less may be included as an expense.

Depreciation cannot be claimed on anything which has an element of natural growth. Animals, trees, etc., (see below) would be excluded from depreciation.

No depreciation can be taken on land or any improvement to land such as tile drainage, wells (except piping, pumps and above-surface installations), clearing land or bulldozing.

Fruit trees purchased with the farm cannot be depreciated. The cost of replacements can be claimed as an expense in the year purchased.

Bridges, piers, docks, break-waters, dams, water holes, dugouts can be depreciated if the outlay is necessary for the earning of the income. If the cost of these items is comparatively small (say \$300 or less) it may be claimed as an expense in the year of payment and not depreciated.

Depreciation on Assets acquired by gift or bequest is claimed on a fair market value or on the value as set out in the succession duty return.

All buildings of steel, cement or stone construction are depreciated at 2½ per cent.

All buildings of wood construction at 5 per cent. It should be noted that the predominant material determines the construction for depreciation purposes. Thus a barn with a cement foundation and a steel roof but built of wood would be depreciated at 5 per cent, but a cement silo with a wooden roof would be depreciated at 2½ per cent. Buildings with stucco finish take the depreciation rate applicable to the material under the stucco finish.

Farm machinery, (except combines and self-powered units) may be depreciated at 10 per cent. (There is one exception to this, machinery which is operated hydraulically from a tractor and cannot be used on all makes of tractors is considered to be part of the tractor and depreciated at the same rate.)

Any article incorporated in a building or machine takes the same rate as the building or machine. New stabling in a barn regardless of its construction would be depreciated at the same rate as the barn. The same applies to electrical installation except motors which are removable. They establish their own rates.

Common equipment on a farm with the rates applicable are set out on the following page:—

## SCHEDULE OF DEPRECIATION RATES

NOTE: If you have claimed a different rate than is shown below and it has been allowed you will continue to use that rate. New equipment, etc., will start at the new rates.

	Maximum Rate Per cent
Automobiles .....	$\frac{3}{4}$ of 20
Barns .....	2 $\frac{1}{2}$
Barns (wood) .....	5
Breakwaters (costing over \$300).....	10
Bridges (costing over \$300).....	10
Binders .....	10
Bee equipment .....	10
Blowers .....	10
Chicken houses .....	5
Combines .....	20
Cornbinders .....	10
Coolers .....	10
Cream separators .....	10
Cultivators .....	10
Cutting boxes .....	10
Cultipackers .....	10
Dugouts (costing over \$300).....	10
Discs .....	10
Dams (costing over \$300).....	10
Docks (costing over \$300).....	10
Electric power lines.....	10
Electric motors .....	10
Fanning mills .....	10
Fences (costing over \$300).....	5
Fertilizer drills .....	10
Fruit graders .....	10
Furnaces .....	10
Grain separators .....	10
Grinders (power) .....	20
Grinders (belt) .....	10
Gasoline motors .....	10
Garages .....	5
Greenhouses .....	5
Greenhouses (tobacco, wood construction) .....	10
Harness .....	10
Harrows .....	10
*Houses (brick, stone).....	2 $\frac{1}{2}$
*Houses (frame) .....	5
Hay balers .....	10

	Maximum Rate Per cent
Hay loaders .....	10
Incubators .....	10
Irrigation (overhead) .....	10
Kilns (wooden) .....	10
Kilns (other) .....	5
Manure spreaders .....	10
Milkers .....	10
Mowers .....	10
Motors (electric) .....	10
Plows .....	10
Potato diggers .....	10
Potato planters .....	10
Piers (costing over \$300).....	10
Pumps .....	10
Rakes .....	10
Rollers .....	10
Seed Drills .....	10
Silo Fillers .....	10
Sleighs .....	10
Stalk Cutters .....	10
Sprayers .....	10
Sheds .....	5
Steamers .....	10
Storage buildings (wood).....	5
Tedders .....	10
Tiller combines .....	10
Tillers .....	10
Tobacco planters .....	10
Tobacco slats .....	10
Tractors .....	20
Trucks .....	20
Threshers .....	10
Trailers .....	10
Wagons .....	10
Waterholes (costing over \$300).....	10
Wells (equipment only).....	10

## NET WORTH STATEMENT

Q.—This farmer's Net Worth Statement seems to be a complicated form. Do I have to fill it in too?

A.—When it is looked at closely it is not as complicated as it would first appear. Yes, it is necessary for you to fill it in and it is of value to you personally. Your banker will ask you to give him a statement similar to this if you need a loan. It also shows you your complete financial position at a given time and tells you whether you are getting ahead or not. It must be filled in carefully and not by guess.

\* Depreciation is not allowed on the farm home because this is looked upon as a part of your personal living expenses. City people, who own the houses in which they live, likewise, are not allowed to deduct depreciation, taxes, mortgage interest, insurance and upkeep.



Most of the items are self-explanatory but a few of them might be a little confusing.

Looking at the asset side first.

*Accounts receivable.* This is money owing to you which is usually from sale of produce. You do not hold any security for this. People have purchased and it is therefore implied that they will pay.

*Notes receivable.* This is money owing to you and for which you hold security (the notes). The balance owing is the amount to be entered at the dates shown.

*Grain held for sale.*

This is the number of bushels on hand end of year less the amount you are going to use for feed and seed which is shown under Fixed Assets lower down. These should be extended at a fair market price and entered in the column headed 31 December, 1947.

The amount you will show in the column headed 31 December, 1946, will be the grain on hand at the beginning of the year valued at the market price at that time.

*Live Stock held for sale.*

This is similar to the above and the same procedure should be followed.

*Mortgages and Agreements.*

These are mortgages you hold as security and not mortgages which you owe.

#### LIABILITIES SIDE

*Notes and Accounts Payable.*

This is money you owe for provisions (other than those for your personal consumption) or produce and equipment purchased and it is expected that it will be paid very shortly. It is not something which you would ordinarily take a year or so to pay. Anything of that nature would come under Fixed Liabilities.

*Income Tax not Paid.*

This item is filled in only if you have not paid all your Income Tax for previous years.

*Mortgages or Agreements Owing on Land Sold.*

If you have sold land and have not paid off the mortgage which was held on this property against you, you should show the amount here.

*Depreciation Charged Off.*

In the first column you will place the total of all the depreciation you have charged in past years plus the depreciation you are charging this year. In the second column you will record only the depreciation you have charged in past years. The reason for this is that you show certain depreciable assets on the asset side at cost but these assets are not worth as much as they were when new and by showing the total depreciation charged you have reduced these assets to their present estimated worth.

*Net Worth.*

The difference between your total assets and your total liabilities is your Net Worth and this figure should be entered in the space provided.

By comparing the Net Worth at the end of 1946 with the Net Worth at the end of 1947 you will be able to see whether your net worth has gone up or down.

NOTE. If you have received moneys from sources other than your farm it should be shown as a note under your net worth statement. Show when it was received, from what source and how much it was. Money received from bequest or gift, sale of land, building, machinery or other similar sources should be shown here.

#49C. Q.—What may I claim if I maintain a full-time housekeeper to care for my children?

A.—If you are a widow or widower or are separated from your spouse and maintain a self-contained domestic establishment employing therein a full time housekeeper to care for your fully dependent children you may claim married status in addition to the full exemption for dependents.

#53. Q.—If I make a gift of money or property this year, for what tax am I liable?

A.—You may be liable for Gift Tax.

Gift Tax is payable on gifts which exceed the following exemptions:

1.—All gifts to charitable institutions are exempt, also gifts of \$1,000 or less to any person.

2.—(a)—\$4,000 or

(b)—One half of the amount obtained by deducting from the income of the previous year the tax payable on that income; whichever is the greater of 2(a) or 2(b).

Rates of gift tax payable on Item 53C: 10 per cent up to \$5,000; 11 per cent on \$5,000 to \$10,000; 12 per cent on \$10,000 to \$20,000; 13 per cent on \$20,000 to \$30,000; 14 per cent on \$30,000 to \$40,000; 15 per cent on \$40,000 to \$50,000; 16 per cent on \$50,000 to \$75,000. For rates on gifts higher than \$75,000 *see* Section 88 Income War Tax Act.

*Example of calculation of gift tax:* Income for the previous year \$5,000. Income Tax on this income \$1,800. Gifts to charitable institution \$100. Gift to brother \$500, gift to son, farm valued at \$12,000.

Calculation of exempt portion = \$5,000—\$1,800 = \$3,200. This is less than \$4,000 therefore the \$4,000 is used. The gifts to charity and the brother are exempt.

Gift tax is payable on \$12,000—\$4,000 = \$8,000.

Rate is 11 per cent, therefore Gift Tax is \$880.



## GENERAL QUESTIONS

### *Auction Sales*

Question.—If I give up farming and have an auction sale must I report the full amount received from the sale of animals and produce as income?

Answer.—The full amount is taxable under ordinary circumstances. If you have established a "basic herd" the proceeds from the sale of this basic herd can be deducted, otherwise the total income from the sale of animals may be spread back over a period not exceeding five years.

Q.—What is a basic herd and how is it established?

A.—Briefly, a basic herd is a capital asset consisting of cattle which have been purchased out of capital or are a replacement of them. You should apply to your District Income Tax Office for full information on regulations governing the establishment of a basic herd. They will supply you with the necessary form which must be filed at the same time you send in your Income Tax Return.

### *Clearing Land*

Q.—May I claim the cost of clearing, brushing or breaking land or bulldozing as an expense?

A.—No. This is a land improvement and as such is a capital expenditure. You may not claim it as an expense, nor may you take depreciation on it.

### *Partnerships*

Q.—Does the Income War Tax Act recognize partnerships for Income Tax purposes?

A.—Yes, provided it can be shown that a partnership exists. The only satisfactory way to show that a partnership exists is to have it in writing.

Q.—May I form a partnership with my son?

A.—Yes. The partnership agreement must however be in writing and registered. It must show what each contributes to the partnership and how the profits are to be divided.

Q.—In the event of my forming a partnership with my son may I keep the buildings and machinery in my own name, or, if I include them in the assets of the partnership what happens to them in the event that the partnership is dissolved or I die?

A.—If you form a partnership with your son you may include the buildings and machinery or you may leave them out, whichever you wish. The partnership agreement should cover this point very clearly. Let us use an example. Father has a farm and a son who has finished school. He wishes his son to stay on the farm and carry on after his death. To encourage his son he suggests a partnership whereby each shares in the profits. A partnership agreement is drawn up. The son contributes to this partnership his full time and energy. The father contributes his farm and part time work.

It is obvious that the father has contributed more to the partnership than the son and even though the profits are to be divided evenly, the father has the greater financial risk. If he wishes that his son should gradually acquire the farm it can be so worded in the agreement by stating that a certain percentage of the son's profits are to be paid to the father until the farm has been paid off at the price shown in the agreement. In such cases however, the son would be taxable on his full share of the partnership profits. The payment to the father would be considered capital. The partnership agreement should also contain a clause showing the disposition of the assets in the event of a dissolution.

If on the other hand, the father does not include the buildings and machinery in the partnership, this should be noted in the agreement and if he is to receive rent for their use it should also be shown. When these assets are not included in the partnership the father is entitled to the full depreciation and it should be taken after the profits of the partnership have been determined. There are many problems arising out of father and son partnerships and it is wise to contact your District Income Tax Office if you are planning anything of this nature.

Q.—If I have a partner, how should we keep our records for income tax purposes?

A.—Details of the partnership's receipts and expenses should be recorded in the account book and the totals included on pages 2-3-4 of the income tax return of at least one member of the partnership. If this is done it will be sufficient for the other partner or partners to enter in Item 22 of the form his share of the net income of the partnership. Reference should be made to the return of the partner which contains the statements.

### *Barter*

Q.—When I trade any farm produce for any other article how will I put it down in my account book?

A.—Put down under the proper headings in your account book a fair cash value as a receipt. If the article received in trade is necessary for your farm you may show the same amount as an expense, in your inventory or depreciation schedule, as the case may be.

### *Property Transfers*

Q.—If I transfer part of my farm to my wife or dependent children, will they have to file returns and pay tax on the amount of income received?

A.—No. You are still taxable on the income received from the property, the same as if no transfer had been made.

### *General*

Q.—If any of my farm produce raised this year is not sold until next year, when do I show the money received as income?

A.—Usually a farmer files on a cash basis and under these circumstances he reports the income when it is received. However, it sometimes happens that a crop cannot all be disposed of by the end of the year and there is a carry-over which is sold early in the next year. In circumstances of this kind it would be possible for him to add the value received back to the year in which it was grown.

Q.—Should I get receipts for my farm expenses?

A.—Yes. It is necessary to have receipts for large items and you should have receipts for as many of the small items as possible.

Q.—What is the difference between a farm expense and a capital expenditure?

A.—Every business requires the investment of some capital in assets of a more or less permanent nature. Farming is no exception. Land and build-

ings are always a necessity and some machinery and equipment are usually required. These are not farm operating expenses, but are expenditures for things with which to carry on the farm business. They are capital expenditures.

The payments you make to repay a loan are not expenses of operating your farm. They are capital expenditures. When you receive a loan you do not regard the money as income, therefore, when you pay back a loan, you should not regard the money paid out as an expense.

All other payments for the operation of your farm, including those for the purpose of repairing and keeping your farm equipment in working order are expenses.

Q.—May I claim as an allowable farm expense, such items as depreciation, repairs, electricity or insurance for my home?

A.—No. Whether you live on the farm or in town, you are not allowed any of your personal or living expenses.

Q.—If an animal of mine dies, may I claim its fair value as an expense?

A.—No. If you were allowed to claim its fair value as an expense you would be getting the same allowance twice, because you have already been allowed as expenses the purchase price, cost of raising, feed, etc.

Q.—May I claim as farm expense an allowance for work performed by members of my family, when money is not actually paid out?

A.—No.

Q.—May I claim life or accident insurance as an expense?

A.—No. That is a personal expense.

Q.—May I file my Income Tax Return in any other way than on the cash basis?

A.—Yes. The other way is the accrual basis, for which you must keep your records in such a manner that it is possible for you to prepare proper financial statements, including a profit and loss statement and a balance sheet. Those farmers and ranchers who have used the accrual basis must continue to do so. A farmer or rancher who has determined his income on a cash basis in past years may change to the accrual basis upon application in writing to the District Income Tax Office. Having made such a change the taxpayer will not be permitted to change back to the cash basis in any subsequent year.



Q.—Where can I get my Income Tax forms?

A.—You can get the forms at your local post office or from your District Income Tax Office. It is your responsibility to get the forms and file them on or before the due date.

Q.—If I pay interest or rentals to persons living outside of Canada do I have to deduct Income Tax?

A.—Yes, you must deduct 15 per cent of the gross amount if you are sending any amounts outside of Canada for—

- (a) interest (in any amount) payable solely in Canadian funds, or
- (b) a gross rental in excess of \$900 per year to an individual, or

- (c) rentals in any amount to other than individuals, for example to corporations, estates, etc.

If you are making such payments, you should obtain Form 603 for interest, or Form 700 for rentals, from your District Income Tax Office, which forms contain the necessary instructions.

Q.—If a farmer dies during the taxation year who files the Income Tax Return for his estate, and when does it have to be filed?

A.—The return showing the income and expenses up to the date of death must be filed by the executor, administrator or heir of the deceased person within six months from the date of death.







Put down here the amount of money or trade value received during the year, from the sale of the items above. In the event of a dispersal sale or partial dispersal sale, you are advised to contact your District Income Tax Office.

[illegible]



(Item 13 on Return)

[illegible]

Put down here the amount received in money or trade value during the year for the above items.

[illegible]



[illegible]

(See page 11)

[illegible]



Show here the amount received from: Apples, Apricots, Peaches, Cherries, Pears, Plums, Prunes, Grapes, Strawberries, Raspberries, Blueberries, Currants, Tomatoes, Celery, Melons, Cucumbers, Beans, Peas, Cabbages, Asparagus, Cauliflowers, Flowers; etc.

[illegible]





Custom Work includes Receipts from Threshing, Combining, Trucking, Plowing and other Farm Work you do for others.

### OTHER FARM RECEIPTS (Item 21 on Return)

Other Farm Receipts Include Hail Insurance, Breeding Fees, Gasoline Rebates, etc.

[illegible]

Enter on this page all your income from rents, interest, dividends, royalties, wages earned, councillor and trustee fees, commissions, annuities, estates, etc.

[illegible]



Enter here all amounts of money or trade value received during the year from the sale of capital items such as land, buildings, machinery, stocks and bonds, etc., and money received by gift, inheritance, war pensions, family allowances, etc. The total of this should be shown as a footnote at the bottom of your Net Worth Statement on the return.

[illegible]

### EXPENSES: SEEDS AND FEEDS

(Item 26 on Return)

Enter on this page the amounts paid to other persons for all seed purchased, feed grain, other feeds (such as chicken feed, pig feed, etc.), plants, trees, and under "other items" any other purchases which would fall under this general heading.

[illegible]

[illegible]







SPRAY MATERIAL (Item 32 on Return)

GAS, OIL AND GREASE (Item 33 on Return)

FERTILIZER AND MANURE (Item 31 on Return)

[illegible]



[illegible]

[illegible]

OTHER EXPENSES (Item 42 on Return)

tals and carry forward



[illegible]

Enter the employees name and address and marital status (Married or Single) and number of dependents. If possible, leave sufficient space between names so that all payments to one employee can be put together. If you have insufficient space, rule some plain paper with the same ruling that is on this page and put it in the book.

[illegible]





Any equipment which you buy should be entered here, under the proper Column, for depreciation purposes. If you construct a building, enter the cost exclusive of your own labour. If it is for farm use you may claim depreciation.

[illegible]



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